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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000821

SIPDIS

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TAGS: [PREL](#) [PGOV](#) [EAID](#) [ETRD](#) [TU](#) [AJ](#) [AM](#)
SUBJECT: AMBASSADOR'S INTRODUCTORY CALL ON FINANCE MINISTER
ON EVE OF U.S. VISIT

REF: YEREVAN 793

Classified By: Ambassador Marie L. Yovanovitch. Reason 1.4 (b/d)

SUMMARY

11. (C) Ambassador's introductory meeting with Finance Minister Tigran Davtian on October 6 highlighted the minister's positive outlook on the Armenian economy and continued economic reform progress. When Davtian made a pitch for resumption of full MCC funding, the Ambassador reminded him of US concerns about Armenia's democratic reform. Davtian asserted that recent political events had not stopped an inexorable movement toward economic reform. He expressed hope that the Western Union situation could be favorably resolved, and promised his help. Davtian also discussed a recently-negotiated deal between Armenia and the IMF under which Armenia will become eligible for nearly 50 million USD in new credit. End Summary.

12. (C) Ambassador met with Finance Minister Tigran Davtian shortly before Davtian's planned trip to Washington DC for the World Bank/IMF meetings. They discussed the economic situation in Armenia and the need for political reforms as a condition for restoring MCC funding. Davtian emphasized his desire to keep Armenia on a prudent, evolutionary rather than revolutionary, path toward economic reform.

MCC HIGH PRIORITY

13. (C) Davtian stated that the upgrading of roads is essential to Armenia's economic development, and made a plea that MCC release the suspended "Package One" roads funding to this end. He reminded that the GOAM committed USD 16-17 million in 2008 as stopgap funding for road construction through the end of 2008. The GOAM has already budgeted projected MCC funding into its 2009 budget, and the MCC-funded projects are part of a network of road projects supported by the World Bank, Asian Development Bank and other institutions. (COMMENT: MCC has held up release of the Package One roads funding due to inter-agency concerns, including from this post, about Armenia's "Ruling Justly" status in the wake of flawed February elections and March 1 political violence. We continue strongly to recommend that funding be held until the December MCC Board meeting, at which time the USG will have both the November scorecards and a better sense of Armenia's still-inadequate progress on repairing its democratic legitimacy. END COMMENT)

14. (C) Ambassador indicated U.S. desire to see the full funding restored, but reminded Davtian that the program is performance-based, and that the criteria for having funding restored are well known. She reminded of our continuing concern about detention of political opponents, as well as limits on media and political demonstrations. The GOAM also must consider how it is being perceived by other countries.

Davtian responded that the issue of political detainees is a matter for the President and the courts, but asserted that political events have not changed the GOAM's commitment to economic reform.

WESTERN UNION

¶15. (C) Ambassador raised the issue of Western Union and the fact that the Central Bank suspended the firm's operations in Armenia effective September 26. She pointed out that this does not reflect well on Armenia's investment environment, and will make it harder to attract new investment to Armenia.

Davtian emphasized his interest in expanding the still-minimal level of U.S. foreign investment in Armenia; he noted that only the U.S. IT sector has any meaningful presence here. He expressed hope that the Western Union situation could be resolved*noting the CBA Chairman,s reaction was likely an emotional first response--and promised to speak about it with the CBA Chairman, who will also be traveling to the U.S. for the IMF/World Bank meetings this week.

EVOLUTION, NOT REVOLUTION

¶16. (C) Davtian cautioned that economic reform will be evolutionary rather than revolutionary, drawing a contrast with the rapid and relatively unstable reform program undertaken in Georgia. However, he insisted the goal is to move toward European economic standards, and claimed that legislation is now nearly 90 percent compliant with European standards. Implementation will take longer.

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¶17. (C) He emphasized that Armenia has been independent only 17 years and that economic development in practice only began around 1995, after the early-1990s economic crises. It is very difficult to transform an economy in just 13 years. Davtian asserted that many GOAM officials, including himself and both current and former Presidents Sargsian and Kocharian, are fairly liberal with respect to economic reform. He is pleased that Armenia is receiving relatively high marks on international assessments of economic freedom and business environment. Davtian noted the challenges Armenia faces as a landlocked country with four problematic neighbors. He hopes to have more normalized relations with Iran, (while understanding U.S. concerns about Iran), as well as with Turkey, despite some continued domestic opposition to Turkish rapprochement.

¶18. (C) Davtian observed that the GOAM has just completed a framework agreement with the IMF that the IMF Board is set to approve in November. The GOAM will receive credits of close to USD 50 million, and in return will make several commitments: To maintain a budget deficit of less than one percent (instead of its current two percent, and the three percent it has promised the EU); impose taxes on gasoline and tobacco; and pay interest and penalties when it fails to make timely refunds of Value Added Taxes.

MACROECONOMIC PICTURE IMPROVING

¶19. (C) Davtian noted that Armenia is on track for its seventh consecutive year of double-digit GDP growth in 2008, 10.4 percent. GDP is now USD 13.8 billion, or USD 4,200 per capita, compared to USD 500 per capita ten years ago. Armenia is now a medium-level economy, though poverty levels remain high. He is optimistic about future growth, saying that Armenia's banking system is not tightly linked to global financial markets, and is becoming a more attractive environment to many foreign investors. The GOAM is undertaking a poverty-reduction program called "Sustainable Development" which will run through 2021 and aims to take poverty levels down to the level of newly-accepted EU states.

¶10. (C) Davtian said he expects four percent inflation in 2009, and does not appear concerned that natural gas price increases of 40 percent in April 2009 and 30 percent in April 2010 will have a serious inflationary impact. Given low demand outside of winter, this gives Armenia still another year to adjust to increased gas prices. The price increase will also be mitigated if the Armenian Dram (AMD) continues to appreciate against the U.S. dollar, in which gas prices are denominated.

COMMENT

¶11. (C) Davtian has long been respected as a competent technocrat and a reliable partner, though seems not to be a powerful player in government circles compared with the newly-strengthened Economy Ministry. Davtian's desire to boost investment and economic development is probably sincere, and we welcome that commitment. We are less sanguine than Davtian about the risk of inflation in Armenia going forward.
YOVANOVITCH